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ABSTRACT

The insurance premium rates that guaranty agencies charge student borrowers under the Guaranteed Student Loan program were analyzed by the U.S. General Accounting Office. The Higher Education Amendments of 1986 established a maximum rate (3% of the principal loan amount) that all agencies could charge student borrowers. Comparisons were made of the insurance rates charged by 17 guaranty agencies, including the Higher Education Assistance Foundation, the designated guarantor for five states and the District of Columbia. Data were obtained from the Department of Education, including financial reports submitted for fiscal year (FY) 1986. Using the agencies' financial reports, insurance rates were determined for FY 1986 and the insurance income they could have earned in 1986 were estimated if their July 1, 1987 rates had been in effect in that year. Estimations were also made of: the total income that the agencies could have earned in 1986 if they had charged the maximum rate of 3%, and the administrative cost subsidy these agencies receive from the Department of Education. Findings include: effective insurance rates ranged from 0.64% to 2.87%; 10 of the 17 agencies lowered their effective insurance rates as of July 1, 1987, while 7 increased their rates. (SW)

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United States General Accounting Office

GAO

Briefing Report to the Chairman, Subcommittee on Postsecondary Education, Committee on Education and Labor, House of Representatives

October 1987

ED289446

GUARANTEED STUDENT LOANS

Analysis of Insurance Premiums Charged by Guaranty Agencies

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
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GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-204708

October 7, 1987

The Honorable Pat Williams
Chairman, Subcommittee on
Postsecondary Education
Committee on Education
and Labor
House of Representatives

Dear Mr. Chairman:

On August 13, 1987, your office requested that we analyze the insurance premium rates guaranty agencies charge student borrowers under the Guaranteed Student Loan Program. The Higher Education Amendments of 1986 established a maximum rate (3 percent of the principal loan amount) that all agencies, beginning on July 1, 1987, could charge student borrowers. Previously, agencies could in certain circumstances charge higher rates. Your request was made as a result of the changes the Higher Education Assistance Foundation (HEAF) made to its insurance rate structure in response to the amendments.

We were requested to compare the insurance rates charged by 17 guaranty agencies, including HEAF, which was the designated guarantor for five states and the District of Columbia. We obtained information from the Department of Education, including financial reports submitted for fiscal year 1986.

Using the agencies' financial reports, we determined their insurance rates for fiscal year 1986 and then estimated the insurance income they could have earned in 1986 if their July 1, 1987, rates had been in effect in that year. We also estimated (1) the total income that the agencies could have earned in 1986 if they had charged the maximum rate of 3 percent, and (2) the administrative cost subsidy these agencies receive from the Department of Education. This subsidy is currently equal to 1 percent of the total principal amount of loans guaranteed.

Our analysis showed that:

-- These 17 agencies received $83 million in premium receipts in fiscal year 1986, with effective insurance rates[1] ranging from 0.64 percent to 2.87 percent.

-- Ten of the 17 agencies lowered their effective insurance rates as of July 1, 1987, while 7 increased their rates. Had the new rates been in place in fiscal year 1986, the 17 agencies could have earned $70 million, or a reduction of $13 million in premium income.

-- Had these 17 agencies charged the maximum insurance rate of 3 percent, they could have earned (1) $91 million more than they actually received in fiscal year 1986 and (2) $104 million more than they could have earned with their current insurance rates.

-- The $104 million in increased premium income these 17 agencies could have received by charging the maximum 3-percent rate could have exceeded by $46 million the estimated administrative cost subsidies ($58 million) these agencies received in fiscal year 1986.

As requested by your office, we did not obtain comments from the Department of Education on this briefing report. However, we discussed its contents with knowledgeable agency officials and incorporated their suggestions where appropriate. We will send copies of this report to appropriate congressional committees, the Department of Education, and other interested parties and will make copies available to others on request. Should you need additional information on the contents of this briefing report, please call me on 275-5365.

Sincerely yours,

William J. Gainer

William J. Gainer
Associate Director

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[1]We computed the agencies' effective insurance rates by dividing the premium receipts for fiscal year 1986 by the amount of loans guaranteed for that period.

Contents

		Page
LETTER		1
GUARANTEED STUDENT LOANS: ANALYSIS OF INSURANCE PREMIUMS CHARGED BY GUARANTY AGENCIES		4
Background		4
Objectives, scope, and methodology		5
Comparison of old and new rates		7
Effect on agency income from new rates		8
Potential income if agencies charged a 3-percent rate		9
Comparison of increase in income at 3-percent insurance rate with the administrative cost allowance		10
Appendix		
I	Potential effect of new insurance rates	12
TABLES		
1	California guaranty agency's insurance rates as of July 1, 1987	8
2	Guaranty agencies' effective insurance rates for fiscal year 1986 compared with 1987 rates	8
3	Potential effect of new insurance rates on guaranty agency income	9
4	Effect on income if all guaranty agencies charged a 3-percent insurance rate	10
5	Comparison of potential premium income increase with a 3-percent rate to agency administrative cost allowances in fiscal year 1986	11
FIGURE		
1	Guaranty agencies included in GAO's analyses	6
RECENT GAO REPORTS AND TESTIMONY RELATED TO GUARANTEED STUDENT LOANS		32

Abbreviations

ACA	administrative cost allowance
HEAF	Higher Education Assistance Foundation

GUARANTEED STUDENT LOANS: ANALYSIS OF INSURANCE PREMIUMS CHARGED BY GUARANTY AGENCIES

On April 13, 1987, the Higher Education Assistance Foundation (HEAF), a multistate guarantor participating in the Guaranteed Student Loan Program, notified lenders and schools of a change in its insurance premium rate structure. Insurance rates are charged to student borrowers in the form of a loan discount or reduction in the amount the student receives. Effective July 1, 1987, HEAF began charging a variable insurance rate to "reflect default risks" associated with the kind of institutions students attended, i.e., proprietary schools, 2-year schools, and 4-year schools. For example, students attending 4-year institutions would pay no insurance premium, while those attending proprietary institutions would pay a 3-percent insurance rate. HEAF said it was making this change to more equitably recognize the varying default risks and costs of administering the program at these institutions. However, other guaranty agencies were concerned that HEAF's actions would cause many schools--especially 4-year institutions--to direct their students to banks whose loans would be guaranteed by HEAF.

BACKGROUND

Under the Guaranteed Student Loan Program, various lenders, such as commercial banks and savings and loan associations, make low-interest loans to students under the protection of guarantees issued by state or private nonprofit guaranty agencies. In fiscal year 1986, the program provided over 3.6 million loans totaling $8.6 billion.

The guaranty agencies are responsible for administering the program within the state, encouraging participation by lenders, and verifying that lenders exercise prudent lending practices in making, servicing, and collecting on student loans. When a borrower fails to repay the loan, the guaranty agency pays the lender's claim.

To offset the costs of administering the program, guaranty agencies receive income from several sources, including (1) the insurance premium charged to student borrowers (which lenders collect and forward to the agencies) and (2) an administrative cost allowance (ACA) to partially reimburse them for their administrative costs. This allowance is currently calculated as 1 percent of the principal amount of loans guaranteed by the agency during the fiscal year and is paid at least annually by the Department of Education.

Insurance premiums

Until the Higher Education Amendments of 1986 were enacted, guaranty agencies were authorized by regulation to charge an

insurance rate that did not exceed 1 percent for each year the borrower was expected to be in school. For example, freshmen entering a 4-year curriculum could have been charged a premium covering each of their expected 4 years in college, resulting in a 4-percent fee. In comparison, students entering a community college program could be charged on the basis of a 2-year education (about 2 percent).

According to the House Committee on Education and Labor's report accompanying its bill for the 1986 amendments:

> "This variation in charges, between students entering different institutions within the same State, as well as between States charging different premiums calculated over different periods, leads to extreme confusion on the part of student borrowers and creates great inequities."

The 1986 amendments modified the insurance premium structure. Guaranty agencies can now charge an insurance rate no greater than 3 percent of the amount students borrow, regardless of the length of the academic program. The premium is deducted from the borrower's loan proceeds. These new rules became effective on July 1, 1987.

OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of the Chairman, Subcommittee on Postsecondary Education, House Committee on Education and Labor, we developed information on the insurance premiums and rates charged in fiscal year 1986, and more recently by the 17 guaranty agencies shown in figure 1.

As agreed with your office, we developed information on the (1) insurance rates charged by the guaranty agencies during fiscal year 1986 compared to rates being charged since July 1, 1987, after HEAF implemented a variable rate structure; (2) potential changes in agencies' revenue from insurance income due to these new rates, using 1986 loan volume as an estimating base; (3) additional income these agencies could earn if they charged the maximum legal insurance rate of 3 percent; and (4) administrative cost allowance agencies received in fiscal year 1986 compared to the increased income they could have received had they charged the 3-percent rate.

Figure 1: Guaranty Agencies Included in GAO Analyses[a]

[a]During fiscal year 1986, HEAF was the approved guarantor for the District of Columbia, Kansas, Minnesota, Nebraska, West Virginia, and Wyoming.

We obtained information for our analyses from the guaranty agencies' financial reports--commonly referred to as the "1130 report"--submitted to the Department of Education for fiscal year 1986, the most recent data available. We also obtained information on the agencies' insurance rates as of July 1, 1987, from data obtained from Department records and discussions with guaranty agency officials.

For our analyses, we used the agencies' loan volume experience in fiscal year 1986 as the base for analyzing the potential financial impact of the rate changes made on July 1, 1987. We assumed that lender and guaranty agency activity in guaranteeing

loans would have remained the same in 1986 if the current rate structure had then been in effect.

The loans guaranteed and insurance premium receipts received by the guaranty agencies are as reported--unverified by us--in the agencies' fiscal year 1986 Form 1130 reports. We also computed the agencies' ACA for 1986 by applying the 1-percent rate authorized by the 1986 amendments to the amount of loans guaranteed in fiscal year 1986.

We computed the agencies effective insurance rates for fiscal year 1986 by dividing insurance premium receipts by the amount of loans guaranteed during the year. (HEAF's rate for that period was a weighted average of its 6 agencies.)

We computed current effective insurance rates for all but 3 agencies by using the actual rates being charged student borrowers beginning July 1, 1987. For HEAF, we computed an average based on 1986 loan volume and actual 1987 insurance rates charged students attending the different kinds of schools. Iowa's effective insurance rate was a weighted average based on 1986 loan volume and actual 1987 rates for each of the three types of guaranteed loans ("regular", Parents Loans for Undergraduate Students, and Supplemental Loans for Students). California's current effective insurance rate was determined by dividing its estimated 1987 premium income--provided by agency personnel--by total loans guaranteed in fiscal year 1986.

COMPARISON OF OLD AND NEW RATES

Appendix I summarizes the potential effect of the new insurance rates on each of the 17 agencies. Fourteen of these agencies adopted a fixed insurance rate on July 1, 1987, which they apply to all loans guaranteed, regardless of the kind of institution attended by student borrowers. The Iowa guaranty agency's insurance premium rate is 1.5 percent for regular guaranteed student loans and 3 percent for Parents Loans for Undergraduate Students and Supplemental Loans for Students. HEAF is charging a variable insurance rate that is related to the kind of institution attended. HEAF is charging no insurance fee to students attending 4-year schools, 1.5 percent to students attending 2-year community and junior colleges and nonprofit trade and technical schools, and 3 percent to students attending proprietary schools. By comparison, the California guaranty agency is charging insurance premium rates based upon a school's default experience. (See table 1.)

Table 1: California Guaranty Agency's Insurance Rates as of July 1, 1987

Default rate (percent)	Insurance rate (percent)
0 to 15	0.0
Over 15 to 20	1.5
Over 20 to 25	2.5
Over 25	3.0

Ten of the 17 agencies are now charging a lower effective insurance rate than they charged in fiscal year 1986. Table 2 shows the comparison for each of the 17 agencies.

Table 2: Guaranty Agencies' Effective Insurance Rates for Fiscal Year 1986 Compared With 1987 Rates

Guaranty agency	Effective 1986 rate (percent)	Effective July 1, 1987, rate (percent)	Percent change
Arkansas	0.86	2.50	191
California	2.25	0.92	(59)
HEAF	1.21	1.70	41
Illinois	2.27	0.00	(100)
Iowa	1.75	1.56	(11)
Kentucky	2.14	2.00	(7)
Louisiana	2.87	3.00	5
Massachusetts	1.11	1.00	(10)
Michigan	1.82	1.00	(45)
Mississippi	2.34	3.00	28
Missouri	2.16	3.00	39
Montana	2.38	3.00	26
New Jersey	1.02	1.00	(2)
New York	0.64	0.50	(22)
Pennsylvania	0.94	0.00	(100)
Texas	2.02	2.25	11
Vermont	2.15	1.00	(53)

EFFECT ON AGENCY INCOME FROM NEW RATES

Table 3 shows the potential increase or decrease in insurance income for each of the agencies assuming their July 1, 1987, rates had been in effect for loans guaranteed in fiscal year 1986. The increases range from $81,047 in Louisiana to $9,333,088 for HEAF. In contrast, California could incur the greatest reduction, $9,034,174, in insurance premium income, followed by Illinois and Pennsylvania, which are currently charging no insurance premium and received insurance income of $8,665,448 and $4,599,133, respectively, in fiscal year 1986.

Table 3: Potential Effect of New Insurance Rates on Guaranty Agency Income

Guaranty agency	Insurance premium income: Actual 1986	Insurance premium income: Estimated with July 1987 rate	Increase (decrease)
Arkansas	$ 282,243	$ 818,132	$ 535,889
California	15,234,174	6,200,000	(9,034,174)
HEAF	22,673,251	32,006,339	9,333,088
Illinois	8,665,448	0	(8,665,448)
Iowa	2,387,776	2,136,539	(251,237)
Kentucky	1,172,699	1,098,161	(74,538)
Louisiana	1,734,397	1,815,444	81,047
Massachusetts	2,806,982	2,536,042	(270,940)
Michigan	3,393,784	1,863,824	(1,529,960)
Mississippi	1,148,218	1,472,489	324,271
Missouri	3,163,463	4,396,159	1,232,696
Montana	778,370	979,622	201,252
New Jersey	2,197,490	2,154,080	(43,410)
New York	5,298,742	4,125,424	(1,173,318)
Pennsylvania	4,599,133	0	(4,599,133)
Texas	7,133,928	7,939,286	805,358
Vermont	454,951	211,451	(243,500)
Total	$83,125,049	$69,752,992	$(13,372,057)

POTENTIAL INCOME IF AGENCIES CHARGED A 3-PERCENT RATE

Four of the 17 agencies began charging the maximum 3-percent insurance rate on July 1, 1987. If these agencies, as well as the other 13 agencies had charged the maximum rate during fiscal year 1986, as much as $104 million in premium income could have been earned, assuming no substantial changes in the agencies' relative loan activity. HEAF and the New York agency could have received the largest increase in income, about $24.4 million and $20.6 million, respectively. Table 4 illustrates the potential additional premium income that each agency could have earned in fiscal year 1986 if it had charged the 3-percent insurance rate.

Table 4: Effect on Income If All Guaranty Agencies Charged a 3-Percent Insurance Rate

Guaranty agency	Estimated income from July 1 rate	Estimated income at 3-percent rate	Increase in income
Arkansas	$ 818,132	$ 981,758	$ 163,626
California	6,200,000	20,273,929	14,073,929
HEAF	32,006,339	56,418,669	24,412,330
Illinois	0	11,441,444	11,441,444
Iowa	2,136,539	4,101,039	1,964,500
Kentucky	1,098,161	1,647,241	549,080
Louisiana	1,815,444	1,815,444	0
Massachusetts	2,536,042	7,608,126	5,072,084
Michigan	1,863,824	5,591,471	3,727,647
Mississippi	1,472,489	1,472,489	0
Missouri	4,396,159	4,396,159	0
Montana	979,622	979,622	0
New Jersey	2,154,080	6,462,241	4,308,161
New York	4,125,424	24,752,544	20,627,120
Pennsylvania	0	14,741,020	14,741,020
Texas	7,939,286	10,585,714	2,646,428
Vermont	211,451	634,352	422,901
Total	$69,752,992	$173,903,262	$104,150,270

COMPARISON OF INCREASE IN INCOME AT 3-PERCENT INSURANCE RATE WITH THE ADMINISTRATIVE COST ALLOWANCE

As noted earlier, guaranty agencies now receive from the federal government an administrative cost allowance of 1 percent on the principal amount of their total loans guaranteed. Table 5 shows the estimated ACA received by the agencies in fiscal year 1986, compared to the potential increase in insurance premium income if all agencies had charged the 3-percent maximum rate. The table shows that the potential increase in premium income could equal or exceed the estimated 1986 ACA for 11 of the 17 agencies. Of the remaining six agencies, four already charge the maximum 3-percent rate and could, therefore, not receive an increase in premium income.

Table 5: Comparison of Potential Premium Income Increase with a 3-Percent Rate to Agency Administrative Cost Allowances in Fiscal Year 1986

Guaranty agency	Increase in premium income at 3 percent[a]	Estimated ACA received during fiscal year 1986[b]	Difference
Arkansas	$ 163,626	$ 327,253	($ 163,627)
California	14,073,929	6,757,976	7,315,953
HEAF	24,412,330	18,806,223	5,606,107
Illinois	11,441,444	3,813,815	7,627,629
Iowa	1,964,500	1,367,013	597,487
Kentucky	549,080	549,080	0
Louisiana	0	605,148	(605,148)
Massachusetts	5,072,084	2,536,042	2,536,042
Michigan	3,727,647	1,863,824	1,863,823
Mississippi	0	490,830	(490,830)
Missouri	0	1,465,386	(1,465,386)
Montana	0	326,541	(326,541)
New Jersey	4,308,161	2,154,080	2,154,081
New York	20,627,120	8,250,848	12,376,272
Pennsylvania	14,741,020	4,913,673	9,827,347
Texas	2,646,428	3,528,571	(882,143)
Vermont	422,901	211,451	211,450
Total	$104,150,270	$57,967,754	$46,182,516

[a]Computed in table 4.

[b]The current 1-percent ACA rate was applied to each guaranty agency's loans guaranteed during fiscal year 1986.

POTENTIAL EFFECT OF NEW INSURANCE RATES

THE ARKANSAS GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$32,725,265
Insurance premium income for fiscal year 1986	$282,243

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	0.86 percent	
Rate as of July 1, 1987	2.50 percent	
Percentage increase (decrease)		**191 percent**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$282,243	
Estimated premium income based on July 1987 rate and 1986 loan activity	$818,132	
Increase (decrease) in income		**$535,889**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$981,758	
Estimated premium income based on July 1987 rate and 1986 loan activity	$818,132	
Increase in premium income		**$163,626**

THE CALIFORNIA GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$675,797,648
Insurance premium income for fiscal year 1986	$15,234,174

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	2.25 percent	
Effective rate as of July 1, 1987	0.92 percent	
Percentage increase (decrease)		**(59 percent)**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income for fiscal year 1986	$15,234,174	
Estimated premium income based on July 1987 rate and 1986 loan activity	$6,200,000	
Increase (decrease) in income		**($9,034,174)**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$20,273,929	
Estimated premium income based on July 1987 rate and 1986 loan activity	$6,200,000	
Increase in income		**$14,073,929**

THE HEAF GUARANTY AGENCIES

Total loans guaranteed for fiscal year 1986	$1,880,622,314
Insurance premium income for fiscal year 1986	$22,673,251

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	1.21 percent	
Effective rate as of July 1, 1987	1.7019 percent	
Percentage increase (decrease)		**41 percent**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income for fiscal year 1986	$22,673,251	
Estimated premium income based on July 1987 rate and 1986 loan activity	$32,006,339	
Increase (decrease) in income		**$9,333,088**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$56,418,669	
Estimated premium income based on July 1987 rate and 1986 loan activity	$32,006,339	
Increase in income		**$24,412,330**

THE ILLINOIS GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$381,381,469
Insurance premium income for fiscal year 1986	$8,665,448

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	2.27 percent	
Rate as of July 1, 1987	0.00 percent	
Percentage increase (decrease)		**(100 percent)**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$8,665,448	
Estimated premium income based on July 1987 rate and 1986 loan activity	$0	
Increase (decrease) in income		**($8,665,448)**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$11,441,444	
Estimated premium income based on July 1987 rate and 1986 loan activity	$0	
Increase in premium income		**$11,441,444**

APPENDIX I

THE IOWA GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$136,701,309
Insurance premium income for fiscal year 1986	$2,387,776

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	1.75 percent	
Effective rate as of July 1, 1987	1.5629 percent	
Percentage increase (decrease)		**(11 percent)**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$2,387,776	
Estimated premium income based on July 1987 rate and 1986 loan activity	$2,136,539	
Increase (decrease) in income		**($251,237)**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$4,101,039	
Estimated premium income based on July 1987 rate and 1986 loan activity	$2,136,539	
Increase in premium income		**$1,964,500**

THE KENTUCKY GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$54,908,046
Insurance premium income for fiscal year 1986	$1,172,699

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	2.14 percent	
Rate as of July 1, 1987	2.00 percent	
Percentage increase (decrease)		**(7 percent)**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$1,172,699	
Estimated premium income based on July 1987 rate and 1986 loan activity	$1,098,161	
Increase (decrease) in income		**($74,538)**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$1,647,241	
Estimated premium income based on July 1987 rate and 1986 loan activity	$1,098,161	
Increase in premium income		**$549,080**

THE LOUISIANA GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$60,514,793
Insurance premium income for fiscal year 1986	$1,734,397

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	2.87 percent	
Rate as of July 1, 1987	3.00 percent	
Percentage increase (decrease)		**5 percent**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$1,734,397	
Estimated premium income based on July 1987 rate and 1986 loan activity	$1,815,444	
Increase (decrease) in income		**$81,047**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$1,815,444	
Estimated premium income based on July 1987 rate and 1986 loan activity	$1,815,444	
Increase in premium income		**$0**

THE MASSACHUSETTS GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$253,604,215
Insurance premium income for fiscal year 1986	$2,806,982

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	1.11 percent	
Rate as of July 1, 1987	1.00 percent	
Percentage increase (decrease)		**(10 percent)**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$2,806,982	
Estimated premium income based on July 1987 rate and 1986 loan activity	$2,536,042	
Increase (decrease) in income		**($270,940)**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$7,608,126	
Estimated premium income based on July 1987 rate and 1986 loan activity	$2,536,042	
Increase in premium income		**$5,072,084**

THE MICHIGAN GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$186,382,381
Insurance premium income for fiscal year 1986	$3,393,784

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	1.82 percent	
Rate as of July 1, 1987	1.00 percent	
Percentage increase (decrease)		**(45 percent)**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$3,393,784	
Estimated premium income based on July 1987 rate and 1986 loan activity	$1,863,824	
Increase (decrease) in income		**($1,529,960)**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$5,591,471	
Estimated premium income based on July 1987 rate and 1986 loan activity	$1,863,824	
Increase in premium income		**$3,727,647**

THE MISSISSIPPI GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$49,082,965
Insurance premium income for fiscal year 1986	$1,148,218

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	2.34 percent	
Rate as of July 1, 1987	3.00 percent	
Percentage increase (decrease)		**28 percent**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$1,148,218	
Estimated premium income based on July 1987 rate and 1986 loan activity	$1,472,489	
Increase (decrease) in income		**$ 324,271**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$1,472,489	
Estimated premium income based on July 1987 rate and 1986 loan activity	$1,472,489	
Increase in premium income		**$0**

THE MISSOURI GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$146,538,633
Insurance premium income for fiscal year 1986	$3,163,463

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	2.16 percent	
Rate as of July 1, 1987	3.00 percent	
Percentage increase (decrease)		**39 percent**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$3,163,463	
Estimated premium income based on July 1987 rate and 1986 loan activity	$4,396,159	
Increase (decrease) in income		**$1,232,696**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$4,396,159	
Estimated premium income based on July 1987 rate and 1986 loan activity	$4,396,159	
Increase in premium income		**$0**

THE MONTANA GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$32,654,083
Insurance premium income for fiscal year 1986	$778,370

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	2.38 percent	
Rate as of July 1, 1987	3.00 percent	
Percentage increase (decrease)		**26 percent**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$778,370	
Estimated premium income based on July 1987 rate and 1986 loan activity	$979,622	
Increase (decrease) in income		**$201,252**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$979,622	
Estimated premium income based on July 1987 rate and 1986 loan activity	$979,622	
Increase in premium income		**$0**

THE NEW JERSEY GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$215,408,030
Insurance premium income for fiscal year 1986	$2,197,490

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	1.02 percent	
Rate as of July 1, 1987	1.00 percent	
Percentage increase (decrease)		**(2 percent)**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$2,197,490	
Estimated premium income based on July 1987 rate and 1986 loan activity	$2,154,080	
Increase (decrease) in income		**($43,410)**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$6,462,241	
Estimated premium income based on July 1987 rate and 1986 loan activity	$2,154,080	
Increase in premium income		**$4,308,161**

THE NEW YORK GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$825,084,812
Insurance premium income for fiscal year 1986	$5,298,742

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	0.64 percent
Rate as of July 1, 1987	0.50 percent
Percentage increase (decrease)	**(22 percent)**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$5,298,742
Estimated premium income based on July 1987 rate and 1986 loan activity	$4,125,424
Increase (decrease) in income	**($1,173,318)**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$24,752,544
Estimated premium income based on July 1987 rate and 1986 loan activity	$4,125,424
Increase in premium income	**$20,627,120**

THE PENNSYLVANIA GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$491,367,323
Insurance premium income for fiscal year 1986	$4,599,133

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	0.94 percent	
Rate as of July 1, 1987	0.00 percent	
Percentage increase (decrease)		**(100 percent)**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$4,599,133	
Estimated premium income based on July 1987 rate and 1986 loan activity	$0	
Increase (decrease) in income		**($4,599,133)**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$14,741,020	
Estimated premium income based on July 1987 rate and 1986 loan activity	$0	
Increase in premium income		**$14,741,020**

THE TEXAS GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$352,857,149
Insurance premium income for fiscal year 1986	$7,133,928

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	2.02 percent	
Rate as of July 1, 1987	2.25 percent	
Percentage increase (decrease)		**11 percent**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$7,133,928	
Estimated premium income based on July 1987 rate and 1986 loan activity	$7,939,286	
Increase (decrease) in income		**$805,358**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$10,585,714	
Estimated premium income based on July 1987 rate and 1986 loan activity	$7,939,286	
Increase in premium income		**$2,646,428**

THE VERMONT GUARANTY AGENCY

Total loans guaranteed for fiscal year 1986	$21,145,052
Insurance premium income for fiscal year 1986	$454,951

CHANGE IN INSURANCE RATES FOR 1987 COMPARED TO 1986

Effective rate for fiscal year 1986	2.15 percent	
Rate as of July 1, 1987	1.00 percent	
Percentage increase (decrease)		**(53 percent)**

POTENTIAL CHANGE IN PREMIUM INCOME

Insurance premium income from fiscal year 1986	$454,951	
Estimated premium income based on July 1987 rate and 1986 loan activity	$211,451	
Increase (decrease) in income		**($243,500)**

POTENTIAL INCREASE IN INCOME AT MAXIMUM 3-PERCENT RATE

Estimated income at maximum 3-percent insurance rate and on 1986 loan activity	$634,352	
Estimated premium income based on July 1987 rate and 1986 loan activity	$211,451	
Increase in premium income		**$422,901**

RECENT GAO REPORTS AND TESTIMONY RELATED TO GUARANTEED STUDENT LOANS

REPORTS

Guaranteed Student Loans: Better Criteria Needed for Financing Guarantee Agencies, GAO/HRD-86-7, 7/2/86

Defaulted Student Loans: Guaranty Agencies' Collection Practices and Procedures, GAO/HRD-86-114BR, 7/17/86

Guaranteed Student Loans: Guidelines for Reducing Guaranty Agency Reserves, GAO/HRD-86-129BR, 8/7/86

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Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs, GAO/HRD-87-76, 9/30/87

TESTIMONY

The Department of Education's Actions to Collect Defaulted Student Loans, statement of William J. Gainer, Associate Director, Human Resources Division, General Accounting Office, before the Subcommittee on Postsecondary Education, House Committee on Education and Labor, 6/19/85

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